

TO: Board Members

THROUGH: Kevin Patteson, Executive Administrator
Les Trobman, General Counsel

FROM: Cindy Demers, Chief Financial Officer/Development Fund Manager

DATE: January 26, 2016

SUBJECT: Consider: (a) authorizing the Executive Administrator and the Chief Financial Officer/Development Fund Manager to take all necessary actions for the issuance, sale and delivery of State of Texas Water Financial Assistance Refunding Bonds and State of Texas Water Financial Assistance Bonds in one or more series in an aggregate principal amount not to exceed \$160 million; and (b) approving the selection of financial advisor, bond counsel, disclosure counsel and senior managing underwriter for the negotiation of the bond issue.

ACTION REQUESTED

Authorize the Executive Administrator and the Chief Financial Officer/Development Fund Manager to proceed with the subject bonds and selection of advisors and other service providers.

BACKGROUND

The Texas Water Development Board (TWDB) issues Water Financial Assistance Bonds for the Economically Distressed Areas Program, the State Participation and Development Fund programs, and has previously issued bonds for the Water Infrastructure Fund program. When issuing bonds, the TWDB typically structures the bonds with a call date preferably ten years or less.

Per the TWDB Debt Management Policy the agency may refund bonds for savings or programmatic reasons. The policy requires that staff consider a net savings present value threshold of 2% for any refunding transaction. A refunding that does not produce a 2% minimal net present value savings may be considered if it achieves other benefits, such as eliminating restrictive covenants. Any refunding must also consider relevant regulations and compliance.

The \$160 million is a not to exceed amount to authorize the issuance of refunding bonds and new money bonds to fund the upcoming state match requirements for both the Clean Water (CW) and Drinking Water (DW) State Revolving Fund (SRF) grants or to provide additional funding for

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To provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas

Board Members

Bech Bruun, Chairman | Kathleen Jackson, Member | Peter Lake, Member
Kevin Patteson, Executive Administrator

the Financial Assistance Account. There is sufficient constitutional bond authority available for this issuance.

KEY ISSUES

Attachment 1 details currently callable Water Financial Assistance Bonds by program, series, and par value outstanding that are recommended to be refunded under this action. This list includes bond series originally issued as tax-exempt and taxable.

The proposed par of \$160 million is a “not to exceed” amount for all series of bonds and will include costs of issuance and rounding amounts. The net proceeds of the bonds will be used to refund currently callable Texas Water Development Board Water Financial Assistance Bonds, provide the upcoming state match for the SRF grants, and to pay costs of issuance. The proposed par amount will be reduced to the extent that prepayments received on one or more of the underlying bond series are used or anticipated to be used to redeem bonds. Staff is monitoring potential prepayments that may reduce this transaction.

Tax Status of Bonds and Refunding

It is anticipated that this refunding will be issued under multiple series based on the tax status of the bonds and program, as well as for inclusion of new money proceeds. Bonds originally issued as taxable may only be refunded as taxable bonds.

Bonds originally issued as tax-exempt bonds may only be refunded as tax-exempt bonds if the originating bonds met compliance under the Tax Increase Prevention and Reconciliation Act (TIPRA). TIPRA requires that 30% of tax-exempt bond proceeds must be expended in the first year of the bond sale and 95% within three years. If the originating bonds only met a portion of compliance under TIPRA, that portion may be eligible to be refunded as tax-exempt while the ineligible portion may be refunded as taxable. Staff is performing an analysis of the bonds series recommended to be refunded to determine eligibility under TIPRA.

Advisors

First Southwest Company is recommended to serve as financial advisor, Bracewell & Giuliani LLP as bond counsel and Mahomes Bolden PC as disclosure counsel.

Staff recommends JP Morgan to serve as senior managing underwriter for the transaction.

With Board approval, staff will develop a timeline, engage the service providers, undertake the debt issuance process as required by the Bond Review Board, negotiate financing agreements with the borrowers, and take other necessary steps to prepare the bonds for issuance and sale. Staff anticipates returning to the Board for adoption of the resolutions and approval of the Preliminary Official Statement for any series issued under this item.

RECOMMENDATION

Authorize the Executive Administrator and the Chief Financial Officer/Development Fund Manager to take all necessary actions for the issuance, sale and delivery of State of Texas Water Financial Assistance Refunding Bonds and State of Texas Water Financial Assistance Bonds in

one or more series in an aggregate principal amount not to exceed \$160 million; and approve the selection of financial advisor, bond counsel, disclosure counsel and senior managing underwriter for the negotiation of the bond issue.

Attachment(s): 1 – Callable Water Financial Assistance Bonds